

FREE ECONOMIC ZONES OF MOLDOVA

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INTRODUCTION

The Free Economic Zones of Moldova have positive outlooks for the years to come with the recently expanded European Union becoming the country's direct neighbor, while a few foreign investors present in nearby Romania are already eyeing Moldova for further eastward expansion. U.S. companies thinking of taking advantages of Moldova's geographical position, its network of free trade agreements with a number of Central and East European states and CIS, as well as the extended General System of Preferences that Moldova enjoys from the EU, should consider the free enterprise zones as one possible location.

The Moldovan Government sees the development of free economic zones (FEZ) instrumental to attracting investments in Moldova and promoting exports. FEZs are generally expected to host competitive industries and provide a variety of export services. To entice a growing number of businesses, the Government intends to establish industrial parks in Moldova's regions and small cities that have promising infrastructure so that businesses take advantage of Moldova's inexpensive inputs. The Government is currently drafting a law on industrial parks in order to expand production, widen the range of export goods, and replace imported goods with domestically produced equivalents.

Moldova is a member of the World Trade Organization, has a highly qualified labor force, and relatively low labor costs. Several multinational companies have recently announced intention to invest in Moldova, including Germany's Draexlmaier and France's Vinci Group. Forecasts for economic growth are positive despite unresolved trade issues in the eastern markets. International donors recently indicated \$1.2 billion of support to Moldova over the next three years. In addition, the U.S. Millennium Challenge Corporation announced Moldova eligible for its development assistance and is expected to finance infrastructure development projects among other things.

Free Economic Zones and Tax Facilities

At present, there are six FEZs and one international free port named Giurgiulesti registered in Moldova. Export-oriented production is the main goal of such zones.

The first two free economic zones were opened in 1996 in the capital city of Chisinau and southern town of Tvardita. In 1999, three more zones were opened in Taraclia and Vulcanesti, both towns located in southern Moldova, and Otaci, in the north near the border with Ukraine. The sixth free economic zone was opened in May 2003 in Ungheni, on Moldova's western border with Romania. The Free International Port Giurgiulesti started its activity in 2005 on Moldova's 500-meter frontage of the Danube, and has elements of a free economic zone.

Set up initially for any type of business activity, the first zones focused primarily on duty-free sales. In order to encourage investment and export-oriented production and establish uniform legislation for free economic zones, the Government passed a new law on free economic zones in 2001 known as the Law on Free Economic Zones.

The setup of a business activity in a Moldovan free economic zone represents a big advantage for companies. Foreigners have the same investment opportunities as local entities. Here are a few reasons to consider:

- 55% exemption from the standard income tax of 15% on businesses for five years (6.75%);
- 100% exemption from income tax in case of investments above \$250,000 in the development of the free economic zone;
- 25% exemption from the standard income tax of 15% on businesses (11.25%);
- 50% exemption from tax on income resulting from export deliveries (7.5%);
- For investments of more than \$1 million a three-year exemption from tax on income resulting from exports, and for investments of more than \$5 million a five-year exemption from tax on income resulting from exports;
- 100% exemption from tax on income derived from production of agricultural products in the zone;
- Zero value-added tax;
- Exemption from excises and customs duties on goods entering or exiting the FEZ;
- 10-year protection against any changes in the law that adversely affect residents.

Free enterprise zones are set up for at least 20 years, with zones having various periods of existence as established in their respective laws:

- Expobusiness Chisinau will function until December 28, 2025
- Free Enterprise Zone Tvardita December 28, 2025
- Free Enterprise Zone Taraclia April 23, 2023
- Production Park Valkanes April 23, 2023

- Free Enterprise Zone Otaci April 23, 2023
- Free Economic Zone Ungheni August 5, 2027

Aside from tax and customs facilities provided to FEZ residents, Moldova's Tax Code provides tax breaks for investors depending on the invested amount with the requirement of minimum reinvestment in company development or government programs for economic development. The table below presents the tax breaks.

Tax breaks available as per Moldovan Tax Code			
Minimum investment in charter capital, USD	Exemption from income tax, %	Period of tax exemption, years	Minimum reinvestment of exempted amount each year, %
250,000	50	5	80
2,000,000	100	3	80
5,000,000	100	3	50
10,000,000	100	3	25
20,000,000	100	4	10
50,000,000	100	4	0

After the expiration of these exemptions, eligible companies can still enjoy tax exemptions for the following three consecutive years on the condition that the charter capital is increased by or capital investments exceed \$10 million. This brings the maximum period of income tax exemptions that a company may benefit from to seven years.

Also, fixed assets contributed to the charter capital of a company are exempted from the value-added tax and customs duties if their value is above MDL 3,000 (\$230.00). Full income-tax exemptions may also be enjoyed by small businesses (3 years), software developers (5 years), agribusiness (5 years), scientific research and innovations (unlimited), and commercial banks and microfinance organizations, which have loans with maturities over 3 years (unlimited). The loss carry-forward period was raised from three to five years.

The following activities are allowed in the free economic zones:

1. Manufacturing of export-oriented products; resident companies may sell no more than 30% of their output in Moldova;
2. Sorting, packing, marking and other similar operations on goods transiting Moldova;
3. Other activities, such as utilities, warehousing, public catering, etc. as needed to support the main activities.

As of October 1, 2006, all 6 free economic zones had 126 residents, with three quarters located in Expo-Business-Chisinau and Ungheni, 46% and 28% respectively. In 2006, the total number of employees in the zones decreased due to a downturn in the activity of

wine companies after the Russian wine embargo. The only growing zone was the Ungheni FEZ, which has more diversified industries. Investments in the zones totaled \$78.8 million, of which \$6.7 million were invested in 2006. Expo-Business-Chisinau takes up most of investments, 42%, whereas Ungheni is the fastest growing FEZ (240% as compared with the same period of 2005).

Total sales by Moldovan FEZ residents dropped almost 8% in the first three quarters of 2006 and represented MDL 651.8 million (\$50.1 million) of which 71% was exported. FEZ residents made 18.6% of their sales on the Moldovan market.

In the first nine months of 2006, FEZ residents produced 841,700 deciliters of wine (a 51.2% decrease from similar period of 2005); 166,800 deciliters of brandy (- 50.9%); 260 million items of cork for bottling (-22.9%), 1,040 tons of polymer foil (- 6.6%), 29.6 million of PET bottle pre-forms (+19%), 5.3 million square meters of carpets (+190%), furniture worth MDL 7.2 million (+ 130%), 22,700 deciliters of non-alcoholic beverages (+950%), electronic equipment worth MDL 7.2 million (+50.4%) and other goods.

Expo-Business-Chisinau

Located in the capital city of Chisinau, it was the first free economic zone in Moldova, which started its activity in 1996. Expo-Business-Chisinau is the largest and most significant FEZ in Moldova, divided into 3 sub zones accommodating 58 companies. One sub zone, Valea Morilor, was prematurely closed down and cannot take in new residents until its full dissolution. Most business activity is concentrated in the sub zone Sud-Est (situated on an area of 23.61 ha), which in fact has no space available for new businesses. Among the most prominent residents is Lion Gri, a well-known Moldovan private wine company. A new sub zone, Centru (33.5 ha), was created on the territory of the Chisinau tractor plant.

Expo-Business-Chisinau

Sos. Muncesti 801, Chisinau MD 2029, Moldova

Tel. (373 22) 41 41 30

Fax (373 22) 41 41 38

Administrator: Mr. Nicolae Calin

Free Enterprise Zone Tvardita

Located in Southern Moldova, in Tvardita, Taraclia district, near the border with Ukraine, the FEZ covers 3.57 ha and accommodates 3 residents set up with Bulgarian investments. The businesses produce wine, brandy, and cheese. Vinimpex, a wine company, is the largest investor in the zone.

Free Enterprise Zone Tvardita

Tvardita, Taraclia MD6118, Moldova

Tel. (373 291) 63 454

Administrator: Mr. Ivan Borov

Free Enterprise Zone - Production Park Taraclia

The FEZ was set up in 1999 in Taraclia, southern Moldova, and covers an area of 39 hectares. The zone accommodates 9 residents that take up half of the available area. They produce mostly ceramic tiles, bentonite, and wooden palettes. Santek is the most successful business, exporting ceramic tiles in the neighboring markets.

Free Enterprise Zone- Production Park Taraclia
Str. Garii 3, Taraclia, Taraclia MD7401, Moldova
Tel. (373 294) 24 483
Administrator: Mr. Vasile Constantinov

Free Enterprise Zone - Production Park Valkanes

The FEZ opened in 1999 in Vulcanesti, Territorial Autonomous Unit Gagauzia, and southern Moldova, on a total area of 122.3 hectares consisting of two sub zones. Only a sub zone is currently functioning. There are 15 residents in Valkanes, with Russian-owned wine company DK Intertrade being the most prominent business in the zone.

Free Enterprise Zone – Production Park Valkanes
Str. Korolenko 6, Vulcanesti MD5300, Moldova
Tel. (373 293) 22 568
Fax (373 293) 22 568
Administrator: Mr. Gheorghe Cerven

Free Enterprise Zone – Production Park Otaci-Business

Opened in 1999, on two sub zones with a total surface area of 94.12 hectares in Otaci, in northern Moldova on the border with Ukraine, the FEZ has been dormant since 2003. After the new law on free economic zones was passed in 2002, Otaci-Business failed to secure the perimeter of the zone as per customs requirements. Romodex, a textile producer registered in Romania, announced recently intent to invest \$2 million to launch underwear production in the zone. Romodex plans to produce a wide range of textile products and create 600 new jobs in the next three years. The company will be export-oriented with annual sales revenue of up to 50 million euros. This announcement revives hopes in the revitalization of the FEZ.

Free Enterprise Zone – Production Park Otaci-Business
Str. Voitovici 27, Otaci, Ocnita MD7106, Moldova
Tel. (373 271) 53 545
Administrator: Mr. Victor Gancu

Free Economic Zone Ungheni-Business

The FEZ, set up in 2003 in the western town of Ungheni on the border with Romania, is the most vibrantly developing and diversified free economic zone in Moldova. Originally established in two subzones, Ungheni-Business expanded to include the local carpet

factory Covoare Ungheni bringing its total surface area to 42.34 hectares. Out of 36 residents of the zone, 20 are from Moldova, 4 from Italy, 2 from Romania and 1 each from Austria, Belarus, Belgium, Germany, Israel, Poland and Russia. The zone produces textiles, meat products, dried fruits and nuts, furniture, carpets, plastics, PET bottle pre-forms, etc.

Free Economic Zone Ungheni-Business
Str. Ion Creanga 4, Ungheni MD3600, Moldova
Tel. (373 236) 20 185
Fax (373 236) 20 184
www.freezone-ungheni.md
zel@freezone-ungheni.md
Administrator: Mr. Sergiu Scutaru

How to become a FEZ resident?

Before choosing a free economic zone, the potential investor will have to consider the location of the zone, available infrastructure and facilities, additional investment needed in developing new facilities, distance to major ways of transportation and distance to sales markets among other things. A company may become resident of a free economic zone by participating in a tender organized by the FEZ administration. Such tenders for potential residents are held almost every month. An interested company would have first to approach the FEZ administration to evaluate opportunities for setting up a business in the zone. Tenders may not necessarily be competitive if there is sufficient room on the territory of the zone or the suggested investment will bring about the needed development in the area. The FEZ administration may negotiate with the potential resident the investments to be made in the development of the zone and sign an agreement within one month. A company will have to get an authorization from the FEZ administration on payment of a one-time fee varying between \$200 and \$500 depending on the zone and will have to obtain all the necessary business licenses as per Moldovan legislation. A resident will also have to pay for utilities and space rental. However, depending on the available facilities a resident may choose to build new structures. Instances related to the actual location, facilities or investment are negotiable with the FEZ administration on a case-by-case basis.

Free International Port Giurgiulesti

The Free International Port of Giurgiulesti was established in 2005 for 25 years, with many elements of a free economic zone for its business residents that can perform a wider range of activities than a conventional FEZ resident. The port is seen as Moldova's gateway to less expensive transportation by sea and river through the direct access to the Black Sea and Danube River. It contributes to the country's global trade integration and sustainability. The Port covers an area of approximately 120 hectares and is set to include an oil terminal and refinery, a cargo terminal and a passenger terminal. There is room for development for interested companies. Residents of the Free International Port

may engage in port and transportation services; manufacture industrial goods, including oil products; transport/transit, process, pack and manufacture goods; perform wholesale operations; render services; and perform other types of activities not prohibited by Moldovan legislation.

Residents of the port that made investments of over \$5 million are exempt from income tax for five consecutive years. Additional investments of \$5 million will exempt port residents for additional two consecutive years.

Port residents enjoy the following advantages: 75% exemption from income tax for the first 10 years following the first year when taxable income was reported; 50% exemption from tax on income for the remaining years; exemption from value-added tax and excises on imports and exports outside Moldova's customs territory; zero valued-added tax on imports from Moldova; and protection against any changes in the law until February 17, 2030.

The general investor of the port is Danube Logistics. The Port currently has 16 residents. As of 1 October 2006, Danube Logistics invested \$23 million in the development of the port. The oil terminal was finished in October 2006, before the earlier established deadline.

One U.S. grain trading company, Trans Oil Corporation, is a prominent business resident in the Free International Port engaged in the construction of a grains terminal. The Overseas Private Investment Corporation (OPIC) acts as guarantor in the projects undertaken by the Trans Oil Corporation. The terminal will have the capacity to store 45,000 tons of grains and 5,000 tons of seed oil. It is designed to transship up to 400,000 tons of grains from Moldova and up to 200,000 tons of transit grains from Russia, Kazakhstan and Romania. The seed-oil terminal will be able to handle up to 40,000 tons of oil per year.

In order to become a resident of the Free International Port Giurgiulesti, an interested company will have to submit an application to the Governmental Representative in the port and get an authorization. The authorization does not exempt the business from getting all other business licenses needed as per Moldovan legislation.

Danube Logistics
Strada Mihai Viteazul 2/2, Chisinau MD, Moldova
Tel. (373 22) 29 36 11
Fax (373 22) 29 28 55
www.danlog.md
moldova@bemol.md
Director General: Mr. Tomas Moser

Useful Contacts:

Ministry of Economy and Trade
Piata Marii Adunari Nationale 1, Chisinau MD2033, Moldova
Tel. (373 22) 23 74 88
Fax (373 22) 23 40 64
Minister: Mr. Igor Dodon
www.mec.md

Ministry of Economy and Trade
Directorate Policies of Investments and Public Assets Management
Tel. (373 22) 23 42 50
Direction Head: Mr. Vladimir Crivciun
Mr. Vladimir Crivciun also acts as the governmental representative in the Free International Port Giurgiulesti.

Moldovan Investment and Export Promotion Organization (MIEPO)
Str. Alexe Mateevici 63, Chisinau MD2009, Moldova
Tel. (373 22) 24 21 11
Fax (373 22) 24 36 19
Director General: Mrs. Lilia Russu
www.miepo.md

American Chamber of Commerce in Moldova (AmCham in Moldova)
QBE ASITO Building, Office 410, Bul. Banulescu Bodoni 57/1
Chisinau MD 2005, Moldova
Phone: (373 22) 21 17 81
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Executive Director: Mr. Jerad Tietz